

Statistical Report

on

CHANDLER-CLEVELAND MOTORS CORP.

Prepared by

CRAM'S AUTOMOTIVE REPORTS, INC.

DETROIT, MICHIGAN

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CHANDLER-CLEVELAND MOTORS CORPORATION

HISTORY

The Chandler-Cleveland Motors Corporation, which is the result of a merger between the Chandler Motor Car Company and the Cleveland Automobile Company, is one of the well known and established units of the automobile industry, its history dating back to 1913, the time of the organization of the Chandler Motor Car Company.

The company, while never a producer in the same sense of the word that Buick, Hudson and some of the other manufacturers have been, has nevertheless turned out an impressive volume of cars, the actual number fluctuating widely in recent years, although showing a tendency toward an increase. In 1922 the company with an output of 10,000 cars held seventeenth place in the industry from a production standpoint, while in 1927 an output of 26,278 units gave it the same position in the industry.

Chandler-Cleveland has always offered a wide range of models with a broad price range in its lines. At present the company offers both six and eight cylinder cars in five models, these being the "65", "Royal 75", "Big Six" and "Royal 85". These four lines include ~~twenty-seven individual models priced from \$875 to \$2295.~~

The Chandler Motor Car Company and the Cleveland Automobile Company were originally organized and operated as separate and independent companies prior to their consolidation in 1925.

The Chandler Motor Car Company was incorporated under Ohio laws in 1913. It was an early producer of medium priced six cylinder cars and enjoyed considerable success in this field. In 1915, the company was reincorporated in Ohio and bought the assets of the predecessor company.

The Cleveland Automobile Company was organized by Fred C. Chandler and those men associated with him in the Chandler Motor Car Company. The Cleveland Automobile Company was incorporated in Delaware in 1919 and entered into the production of six cylinder cars priced lower than those of Chandler. In 1926, following the consolidation of the two companies, the business, assets and liabilities of Cleveland were transferred to the Chandler-Cleveland Motors Corporation and the Cleveland Automobile Company went out of existence.

The consolidation of the two companies provided for the acquisition of the capital stock of the Chandler Motor Car Company in exchange, on a share for share basis, for the preference stock of the Cleveland Automobile Company, and the acquisition of the common stock of that company in exchange on a share for share basis for the common stock of the new corporation. The new organization is said to own approximately all but 1 per cent. of the stock of the Chandler Motor Car Company.

Chandler-Cleveland
Motors Corp

At the present time the company has a number of subsidiaries engaged in both the manufacture and sale of its products. The Automobile Machine Company was incorporated in 1920 by the Chandler Motor Car Company and the Cleveland Automobile Company, each of these organizations owning half of the preferred and common stock of the subsidiary. The Automobile Machine Company manufactures and machines parts for the parent company, and has also acquired stock in other companies. One of these, the Atlas Manufacturing Company, located at Fostoria, Ohio is engaged in activities similar to those of the Automobile Machine Company. It was organized in 1900.

Chandler-Cleveland also owns the London Road Realty Company which was organized in 1919 for the sole purpose of holding the parent company's real estate. Through its subsidiary, the Automobile Machine Company, the company owns the Chandler-Cleveland Motor Car Company (California) and the Chandler-Cleveland Motor Car Company (Massachusetts), both retail and wholesale outlets for the company's products. They were both organized in 1922.

Through direct ownership and through control of its subsidiaries Chandler-Cleveland owns approximately 35 acres of land most of which is located in Cleveland, Ohio. The greatest part of this property is covered with buildings and manufacturing equipment which is said to be entirely modern and adequate for a maximum output of about 300 units daily. The company also has complete transportation facilities, its property lying adjacent to the New York Central and Nickle Plate railroads.

Changes in the capital structure of Chandler and Cleveland have not been numerous since the consolidation and at the present time there are 350,000 shares of authorized no par, convertible \$4 non-cumulative, voting preferred stock, the entire amount of which is outstanding. There are also 1,000,000 shares of no par common stock authorized, with 280,000 shares outstanding. The outstanding shares of both issues include a small amount of stock still to be exchanged for former Chandler Motor Car Company and Cleveland Automobile Company stock.

No dividends are being paid at this time. The last payment made on the preference stock was on October 1, 1927. No payments have been made on the common stock since the time of the consolidation.

On Saturday, November 24, 1928, it was unofficially announced that control of Chandler-Cleveland Motors Corporation had passed to the Hupp Motor Car Corporation as the result of an accumulation of the stock in the open market of the former company by interests closely associated with Hupp. No details were available at the time this report was prepared of the eventual outcome of this merger or of the way it is to be handled.

Naturally, this development changes the entire situation as far as Chandler-Cleveland is concerned and other portions of this report will be devoted to a discussion of what this merger will mean to the companies involved.

The officers and directors of the Chandler-Cleveland Motors Corporation are:

Fred C. Chandler-----	President and Director
J. V. Whitbeck-----	Vice-President and Director
W. S. M. Mead-----	Vice-President and Director
Sid Black-----	Vice-President and Director
Samuel Regar-----	Treasurer and Director
Joseph I. Crall-----	Secretary
Fred C. Chandler, Jr.-----	Director
P. W. Brown-----	Director
A. B. Rinehart-----	Director

EARNINGS

Since the reorganization of the company, its earnings record has been far from spectacular. At no time since 1925 has net income approached the level of the total shown for the predecessor companies during the years previous to 1925.

From the standpoint of net income, 1923 was the banner year for Chandler, when total earnings amounted to \$3,206,142. At the end of 1926, \$363,744 in net income was reported by the company. This compares with an average annual earning for the predecessor companies during the four years previous of \$2,240,918. A net income of only \$22,700 in 1927 was the lowest annual income reported since 1921. During 1926 and 1927, the company set up special contingency reserves to take care of write-offs in connection with dies, jigs and tools, commitments and inventories. This special reserve amounted to \$250,000 in 1926, and \$500,000 in 1927. These accounts decreased the 1926 income to \$113,744, and changed 1927 reported income to a deficit of \$477,300. Annual net income for the past six years is given in the following table:

NET INCOME

1922 --	\$ 1,859,919
1923 --	3,206,142
1924 --	1,427,900
1925 --	2,470,611
1926 --	363,744
1927 --	22,700

Average \$ 1,558,503

The record of Chandler's per share earnings since the organization of the present company has not been highly satisfactory. Earnings per share on the preferred stock, during 1926, amounted to \$1.04, approximately one-third of the dividend requirements for that year. In 1927 earnings on the preferred stock were only \$.06 per share. There have been no earnings on the common stock. The per share record is as follows:

EARNINGS PER SHARE

(Combined for Predecessor
Companies Prior to 1926)

	<u>Preferred</u>	<u>Common</u>
1922 --	\$ 5.31	\$ 1.64
1923 --	9.16	6.45
1924 --	4.08	.10
1925 --	7.06	3.82
1926 --	1.04	--
1927 --	.06	--
Average	\$ 4.45	\$ 3.00

Poor earnings are naturally reflected in the earnings on invested capital. The following table shows the marked decrease that has taken place during the past three years:

EARNINGS ON
INVESTED CAPITAL

1925 --	14.8 %
1926 --	2.3
1927 --	.2

Average 5.8 %

On April 1, 1926, an initial quarterly dividend of \$1 per share was paid on the preference shares, followed by a similar amount at the end of each of the two quarters immediately following. Effective with the quarterly dividend payable January 2, 1927, the rate was reduced to \$.62½, or an annual rate of \$2.50. Since the quarterly dividend due January 1, 1928, payments have been entirely omitted. As yet, no dividends have been paid on the present common stock. Fairly liberal dividends were paid on the stock of the old Chandler Motor Car Company. However, the annual basis of payments on that stock was reduced from \$6 to \$3 in the final quarter of 1924.

The earnings recorded so far this year fail to reveal any apparent improvement. On the contrary, at the end of the first six months of the current year, earnings amounting to \$61,060 were only about one-fifth of those reported during the corresponding period of the previous year. At the close of the first quarter of 1928, earnings of \$52,266 were reported, compared with a 1927 deficit of \$99,255. The substantial improvement noted in earnings during the second quarter of 1927, when a net income of \$411,603 was reported, did not take place in the corresponding part of 1928 as only \$8,794 was shown at that time. Third quarter earnings in 1927 amounted to \$170,164. Figures covering the same period of 1928 have not been published.

FINANCIAL CONDITION

On the whole, we find that the weakening tendencies reflected in the previous analysis of earnings also hold true with regard to the financial structure of the Chandler-Cleveland Motors Corporation. There are exceptions to this statement as will be indicated in the comparisons which follow:

In the face of a situation which would seem to indicate decreasing strength, it is rather interesting that the company's ratio of current assets to current liabilities has shown a marked increase during the past three years. During this period the average current ratio was 2.48 to 1. At the end of 1925, current assets amounted to \$8,640,273, compared with current liabilities of \$4,562,823, revealing a ratio of only 1.89 to 1. By December 31, 1927, current assets were shown at \$3,709,720, less than one-half of the previous figure. However, current liabilities during the same period had dropped to \$1,106,878, indicating a ratio of 3.35 to 1. The following table shows the detailed ratios for the past three years:

RATIO OF CURRENT ASSETS TO CURRENT LIABILITIES

1925 --	1.89 to 1
1926 --	2.21 to 1
1927 --	3.35 to 1

Average 2.48 to 1

The percentage of the total assets taken up by current assets has shown a sharp downward trend during the period under consideration. This relationship dropped from 40 per cent. of the total assets in 1925 to only 22 per cent. at the end of 1927. Fixed assets remained at virtually the same amount during the period. Practically all the change that took place in current assets was brought about by a drastic decrease in the cash account, and a substantial cutting down of merchandise inventories. The percentages are as follows:

PERCENTAGE OF CURRENT ASSETS TO TOTAL ASSETS

1925 --	.40 %
1926 --	.31
1927 --	.22

Average .31 %

In 1925 cash, including all proceeds from the sale of stock not allocated to other accounts, amounted to \$3,036,917. The following year the account dropped to \$432,837, or approximately one-seventh of the previous year's record. In 1927, cash amounted to only \$189,158, about one-half of that shown for 1926. This abrupt drop is naturally reflected in all of the cash comparisons which follow.

During the three year period there has been an average of \$.33 in cash to every dollar in the form of current liabilities. At no time has the company been in a particularly strong position, as far as having sufficient cash to take care of its current liabilities is concerned. The substantial amount of cash in 1925 was only equal to two-thirds of the current liabilities. The detailed percentages follow:

PERCENTAGE OF CASH
TO CURRENT LIABILITIES

1925 -- 66.5 %
1926 -- 16.8
1927 -- 17.0

Average 33.4 %

The ratio of cash to accounts payable in 1927 reached a low point of only \$.25 to meet each dollar of current obligations. The accounts payable account was reduced from \$3,420,650 in 1925 to \$747,122 in 1927. The decrease in cash was even more precipitate as is shown by the following table:

RATIO OF CASH TO
ACCOUNTS PAYABLE

1925 -- .89 to 1
1926 -- .34 to 1
1927 -- .25 to 1

Average .49 to 1

The downward trend noted in other cash comparisons is also evident in the percentage relationship of cash to current assets. This comparison shows a decline from 35.1 per cent. in 1925 to only 5.1 per cent. in 1927. The complete yearly figures are given below:

PERCENTAGE OF CASH
TO CURRENT ASSETS

1925 -- 35.1 %
1926 -- 7.5
1927 -- 5.1

Average 15.9 %

Comparison of cash to inventories fails to show any particular strength. Cash amounted to nearly 70 per cent. of inventories in 1925, but since that time the relationship has been exceptionally low. The percentages are as follows:

PERCENTAGE OF CASH
TO INVENTORIES

1925 -- 66.8 %
1926 -- 8.9
1927 -- 5.8

Average 27.2 %

Approximately 75 per cent. of the current assets during the 1925-1927 period were tied up in the form of inventories. During 1927 the percentage relationship was even higher, with inventories being equal to 87.1 per cent. of current assets. The percentages for the past three years are shown below:

PERCENTAGE OF INVENTORIES
TO CURRENT ASSETS

1925 -- 52.4 %
1926 -- 84.1
1927 -- 87.1

Average 74.5 %

Of the fixed assets, the property account, averaging about \$7,250,000 during the three year period, has been the most important. At the end of 1927, the depreciation allowance of \$3,427,801 was equal to approximately one-third of the total property value of \$10,611,451. The marked decrease in current assets as reflected by the increasing importance assumed by the property account can be readily observed in the following table:

PERCENTAGE OF PROPERTY
TO TOTAL ASSETS

1925 -- 34.4 %
1926 -- 39.5
1927 -- 43.8

Average 39.2 %

Goodwill is carried at an extremely large figure. Five million dollars of goodwill seems to be entirely out of alignment with the conditions indicated by our other comparisons. Over the past few years goodwill represented entirely too large a percentage of the total assets even if a substantial rate of profits had been maintained throughout the period. The annual goodwill percentages follow:

PERCENTAGE OF GOODWILL
TO TOTAL ASSETS

1925 -- 23.2 %
1926 -- 27.2
1927 -- 30.5

Average 26.9 %

The estimated surplus account has shown a decided downward trend. During the past three years it dropped from approximately \$7,500,000 down to \$5,408,945. The annual amounts follow:

SURPLUS

1925 -- \$ 7,541,045
 1926 -- 6,512,188
 1927 -- 5,408,945

Average \$ 6,487,392

The latest available balance sheet of Chandler-Cleveland Motors Corporation, dated December 31st, 1927, follows:

CHANDLER-CLEVELAND MOTORS CORPORATION
 CONSOLIDATED BALANCE SHEET
 DECEMBER 31st, 1927

ASSETS:

Land, Bldgs., Machy., Equip.-----	\$ 7,183,650.00
(less depreciation)	
Goodwill-----	5,000,000.00
Treasury Stock (less balance due on purchase thereof)-----	100,345.00
Investments in, and Advances to other Co's.-	81,888.00
Miscellaneous-----	141,282.00
Deferred Charges-----	156,938.00

Current Assets

Cash-----	189,158.00
Customers' Notes Receivable (less allowance for doubtful)-----	87,848.00
Customers' Accounts Receivable (less allowance for doubtful) and cars and parts sold for export-----	185,489.00
Creditors' Debit Balances-----	15,439.00
Merchandise Inventories (book value, below market value)-----	3,231,786.00
Total Current Assets--\$	3,709,720.00
Total Assets--\$	16,373,823.00

LIABILITIES:

Preferred Stock (at \$25 per share)-----	\$ 8,750,000.00
Common Stock (at \$1.10 per share)-----	308,000.00
Surplus-----	5,408,945.00
Reserve for Contingencies in Connection with Dies and Tools, Inventories, etc.-----	500,000.00
Reserve for General Contingencies-----	300,000.00

Current Liabilities

Notes Payable-----	28,633.00*
Accounts Payable-----	747,122.00

BALANCE SHEET
(Cont'd.)

Accrued Taxes (including Federal taxes-----)	\$ 187,655.00
Customers' Credit Balance-----	63,996.00
Dealers' Deposits-----	79,472.00
Total Current Liab.	\$ 1,106,878.00
Total Liab.	\$16,373,823.00
** Net Working Capital \$2,602,842.00	

* Represents Notes Payable of Subsidiary.

** Based on current assets and current liabilities as above.

PROSPECT

Because of the affirmation by officials of both this company and Hupp Motor Car Corporation of the culmination of the merger between the two organizations, all further consideration of Chandler-Cleveland must be from the standpoint of Hupp.

Being the larger and stronger of the two organizations, Hupp is naturally bound to dominate the combine. Unquestionably the personality of Chandler will become submerged in that of Hupp, to a much greater extent than has been the case with the General Motors Corporation and its various units or with Chrysler and Dodge.

There are almost as many opinions on the eventual outcome of this merger as there are persons interested. Possibly no merger in recent years has caused more speculation and at the same time offered less available information than in this particular case. Executives of both companies affected have consistently refused to comment on the deal, a fact which is interpreted by many as indicating that the details and initiative for the merger lay in outside hands, with the result that the executives, not having been consulted, are unable to offer any opinions or state what plans for the consolidation are at the present time.

This explanation appears hardly logical to this Service. It is evident that, in spite of the deal having been originated by outside interests, enough of the stock in each organization was controlled by the management to at least enable them to be cognizant of what was taking place and what the final outcome will be.

The entire matter narrows down to one of speculation, and it is the purpose of this Service to present a number of possibilities which seem the most logical and reasonable.

It has been the general rumor for some time that W. C. Durant was accumulating Hupp stock in the open market. Whether this is actually true or not with regard to Mr. Durant, it is apparent that some person or interests were acquiring Hupp.

This being the case, it is difficult to see how sufficient stock to give a controlling interest in Hupp, or at least sufficient stock to enable the merger to be brought about, could have been acquired without either the initiative or at least the approval of those people already interested in the stock. As a result it is the opinion of this Service that the motive for the merger was Hupp's, and whether or not that corporation actually maneuvered the deal, Hupp was responsible for its being brought about.

It then becomes a question of what Hupp could hope to gain by acquiring Chandler. It is, first of all the belief of this Service, that Hupp plans an ambitious program for the coming months. The success of the company during 1928 suggests that it will not be willing to continue through 1929, satisfied with doing no more than holding what it has gained. In order to expand, however, the company undoubtedly needs additional manufacturing facilities, and the Chandler properties are said to be as modern and efficient from a production and distribution standpoint as any in the industry.

This plant would give Hupp an excellent base for the manufacture of a small, low priced six cylinder car, which it is the opinion of many that Hupp will bring out in 1929, although there has been no statement by the company as yet to that effect. This model might be marketed as a Hupp, or as a Chandler -- a subsidiary of Hupp. That phase of the problem is relatively unimportant. The main thing is the fact that Hupp dealers would generally have an expanded line of cars which is apparently what the dealer organization desires and which would unquestionably put them in a much better competitive condition.

This Service firmly believes that Hupp could advantageously build another car such as that mentioned, and sell it in sufficiently large quantities to increase the present volume of business from a dollar and cents standpoint by at least 50 per cent., and as Hupp has now gained a position where earnings in the neighborhood of \$7.50 or \$8 per share are expected, the additional increase, bringing earnings to around \$10 or \$12 per share annually, would be an extremely favorable stroke of business for the company.

There is another consideration that is of unquestioned importance. Chandler owns outright or controls manufacturing subsidiaries that fabricate parts for the company's cars. By acquiring these, Hupp could undoubtedly effect considerable saving in obtaining its materials and thus increase its profit per unit. In many quarters, it is suggested that this phase of the situation is regarded by Hupp as the most important, and while this Service cannot concur in that opinion, it nevertheless admits the importance which these subsidiaries can play, and the consideration that Hupp could very logically have given them.

Altogether, this Service can see only advantages growing out of this merger. We see a gradually weakening organization passing into a steadily growing one, giving the stronger the benefit of many things that it requires.

It appears to have the potential ability to bring about all the advantages that a merger offers without involving numerous disadvantages as is usually the case in consolidations of this nature. Neither concern is so large as to result in over-organization. There appears little likelihood of internal competition, while competition as it relates to the general industry can be materially strengthened through the association of these two companies.

This merger has every indication of being exactly what the industry needs. The elimination of what appears destined to become deadwood before any loss to creditors to investors is always a fortunate move and we believe this very thing to have been averted in the present case. We foresee a stronger company resulting with an accompanying strengthening of the automotive industry.

* * *

ESTIMATED CHANDLER PRODUCTION

	<u>1925</u>	<u>1926</u>	<u>1927</u>	<u>1928</u>
Jan.	2,000	1,763	1,658	2,338
Feb.	2,500	1,045	1,747	2,562
Mar.	2,700	2,224	2,609	2,450
Apr.	3,000	2,064	3,192	3,417
May	3,636	2,010	3,366	3,308
June	2,500	2,202	1,517	2,248
July	2,473	1,200	2,000	2,837
Aug.	2,600	2,600	2,956	4,676
Sept.	2,410	2,756	1,553	3,275
Oct.	2,625	1,642	1,502	1,503
Nov.	3,150	1,631	1,135	
Dec.	<u>2,400</u>	<u>1,266</u>	<u>629</u>	
Total	31,994	22,403	23,864	

CHANDLER DOMESTIC RETAIL SALES

	<u>1925</u>	<u>1926</u>	<u>1927</u>	<u>1928</u>
Jan.	867	1,566	838	659
Feb.	1,080	1,177	970	662
Mar.	2,014	1,623	1,559	1,080
Apr.	2,839	2,434	2,422	1,509
May	2,794	2,463	2,270	1,485
June	2,521	1,731	2,011	1,247
July	2,436	1,907	1,754	1,255
Aug.	1,963	1,643	1,930	1,837
Sept.	1,454	1,808	1,572	2,092
Oct.	1,537	1,744	1,153	
Nov.	1,842	1,141	822	
Dec.	<u>1,523</u>	<u>836</u>	<u>567</u>	
Total	22,870	20,073	17,868	

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PARTS AND ACCESSORIES MANUFACTURERS
FURNISHING CHANDLER ORIGINAL EQUIPMENT

Manufacturer

A. C. Spark Plug Company
Borg & Beck Company
Bowen Products Corporation
Delco-Remy Corporation
Fedders Manufacturing Company
Gemmer Manufacturing Co.
Harrison Radiator Corp.
Jaxon Steel Products Co.
Midland Steel Products Co.
Motor Wheel Corporation
Prest-O-Lite Company, Inc.
Stewart-Warner Speedometer Corp.
Wheeler-Schebler Carburetor Co.

Product

Speedometers
Clutches
Chassis Lubrication
Generators, Starters, Ign.
Radiators
Steering Gears
Radiators
Rims
Frames
Wheels
Batteries
Speedometers
Carburetors

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